COMMUNITY CENTER AUTHORITY

(A Component Unit of the City of Anaheim, California)

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

COMMUNITY CENTER AUTHORITY
(A Component Unit of the City of Anaheim, California)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Community Center Authority:

We have audited the accompanying financial statements of the Community Center Authority, a component unit of the City of Anaheim, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Community Center Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Center Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the financial statements, the financial statements present only the Community Center Authority, a nonprofit civic agency created under the terms of the Joint Exercise of Powers Agreement entered into by the City of Anaheim, California and the Anaheim Union High School District, and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

December 10, 2014

COMMUNITY CENTER AUTHORITY
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Statement of Net Position

June 30, 2014

Assets

Current assets:		
Accrued interest receivable	$	355,000
Lease receivable, current portion		3,500,000
Total current assets		3,855,000
Noncurrent assets:		
Restricted cash equivalents		2,989,000
Restricted investments		6,490,000
Lease receivable		24,840,000
Total noncurrent assets		34,319,000
Total assets	$	38,174,000

Liabilities and Net Position

Current liabilities:		
Accrued interest payable	$	174,000
Certificate of participation, current portion		3,500,000
Total current liabilities		3,674,000
Noncurrent liabilities:		
Certificates of participation		34,500,000
Total noncurrent liabilities		34,500,000
Total liabilities		38,174,000
Total net position		—
Total liabilities and net position	$	38,174,000

See accompanying notes to financial statements.

COMMUNITY CENTER AUTHORITY
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Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2014

Operating revenue:		
Facility lease revenue	$	1,925,000
Operating expenses:		
Interest expense		(2,357,000)
Operating loss		(432,000)
Nonoperating revenue:		
Interest income		432,000
Change in net position		—
Total net position – beginning of year		—
Total net position – end of year	$	—

See accompanying notes to financial statements.

COMMUNITY CENTER AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:		
Lease payments received	$	2,350,000
Interest paid		(2,350,000)
Net cash provided by operating activities		—
Cash flows from investing activity:		
Interest received		431,000
Net cash provided by investing activity		431,000
Increase in restricted cash equivalents		431,000
Restricted cash equivalents – beginning of year		2,558,000
Restricted cash equivalents – end of year	$	2,989,000
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(432,000)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Changes in assets and liabilities that provide (used) cash:		
Accrued interest receivable		(6,000)
Lease receivable		432,000
Accrued interest payable		6,000
Net cash provided by operating activities	$	—

See accompanying notes to financial statements.

(1) Organization

The Community Center Authority (the CCA) is a nonprofit civic agency created under the terms of the Joint Exercise of Powers Agreement entered into by the City of Anaheim, California (the City) and the Anaheim Union High School District on March 1, 1965. The CCA was established to render financial assistance with the financing, acquisition, construction, operations, and maintenance of public auditoriums and exhibition buildings and facilities located within the City.

The CCA is governed by a five-member board of directors appointed by the City Council and has no employees. The City operates the Anaheim Convention Center under a facility lease with the CCA (note 4). Upon dissolution of the CCA, any net position remaining after liquidating all debts and obligations will be distributed to the City.

The CCA is a component unit of the City for financial reporting purposes as the City is accountable for the activities of the CCA. Accordingly, the results of operations for the CCA are included as a blended component unit in the comprehensive annual financial report of the City.

(2) Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the CCA are prepared in conformity with the U.S. generally accepted accounting principles (GAAP) that are established by the Governmental Accounting Standards Board (GASB). The transactions of the CCA are accounted for as an enterprise fund utilizing the accrual basis of accounting.

On July 1, 2013, the CCA adopted the following new accounting pronouncements issued by the GASB:

- GASB Statement No. 66, *Technical Corrections – 2012: an Amendment of GASB Statement No. 10 and No. 62*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013.

Implementation of these pronouncements has no material effect on amounts reported in the CCA's financial statements for the fiscal year ended June 30, 2014.

(Continued)

(b) Restricted Cash Equivalents and Investments

Restricted cash equivalents and investments of the CCA are maintained and invested by an independent fiscal agent. Cash equivalents are defined as highly liquid investments that are both readily convertible to a known amount of cash and mature within 90 days of the date of purchase. Mutual fund investments are carried at fair value based on the fund's share price and flexible repurchase agreements, are carried at fair value based on market price.

(c) Fiscal Agent

A fiscal agent on behalf of the CCA holds and invests funds from long-term debt issuances. The fiscal agent is mandated by bond indenture as to the types of investments in which proceeds can be invested. Investments by the fiscal agent predominantly consist of flexible repurchase agreements and mutual funds held in book entry form by the fiscal agent.

(d) Debt Issuance Costs

Debt issuance costs are expensed when incurred. Prepaid bond insurance costs are capitalized and amortized over the lives of the related debt issues using the effective-interest method.

(e) Use of estimates

The preparation of the CCA's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of June 30, 2014, and revenue and expenses for the fiscal year then ended. As such, actual results could differ from those estimates.

(3) Restricted Investments

(a) Investments Authorized by Debt Agreement

Investment of debt proceeds held by the fiscal agent is governed by provisions of the debt agreement. The table below identifies the investment types that are authorized for investments held by the fiscal agent. The table also identifies certain provisions of the debt agreement that address interest rate risk, credit risk, and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage allowed	Maximum investment in one issuer
U.S. agency securities	None	None	None
Bankers' acceptances	One year	None	None
Commercial paper	None	None	None
Certificates of deposit	One year	None	None
Investment agreements	None	None	None
Repurchase agreements	None	None	None
State or municipal bonds or notes	None	None	None
Money market mutual funds	None	None	None
Local Agency Investment Fund	None	None	None

At June 30, 2014, the investments controlled by the fiscal agent exceeded 5% concentration in the following money market mutual fund and repurchase agreement: Invesco Private $2,989,000 (32%) and Republic National Bank $6,490,000(68%), respectively.

(b) Custodial Credit Risk

Custodial credit risk for investments held by the fiscal agent is the risk that the CCA will not be able to recover the value of investment securities that are in the possession of an outside party. All securities held by the fiscal agent are in the name of the bond issue in trust for safekeeping with the fiscal agent, which is different from the CCA's primary bank.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The CCA mitigates this risk by investing in longer term securities only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The CCA uses the segmented time distribution method to identify and manage interest rate risk. Interest rate risk for investments held by the fiscal agent is offset by the fact that the long-term investments are for the reserve funds with the semiannual interest income used to pay a portion of the debt service. These are long-term securities that are not adversely affected by interest rate changes. Money market funds are used to accumulate resources for semiannual debt service payments.

Information about the sensitivity of the fair values of the CCA's investments held by the fiscal agent to market interest rate fluctuations is provided by the following table. The distribution of the CCA's investments by maturity at June 30, 2014 is as follows:

Investments	Credit rating	Fair value, June 30, 2014	1 year or less	10 to 20 years
Investments controlled by fiscal agent:				
Flexible repurchase agreement	Unrated	$ 6,490,000	—	6,490,000
Mutual funds	AAA	2,989,000	2,989,000	—
Total investments controlled by fiscal agent		$ 9,479,000	2,989,000	6,490,000

(4) Lease Receivable

The CCA has entered into a noncancelable lease for the Anaheim Convention Center with the City expiring on August 1, 2023. The lease payments are designed to provide for installment amounts sufficient to meet the annual debt service requirements on certain of the certificates of participation issued by the CCA (note 5). The lease receivable has been recorded at the present value of the future minimum payments to be received from the City under the lease agreement, reduced by the amount of debt proceeds and other amounts held by the CCA. The amount by which the lease receivable is offset has been and will continue to be reduced as the debt proceeds and other amounts are utilized and/or amortized. The lease transfers ownership of the facility to the City at the end of the lease term.

Future minimum lease payments to be received from the City are as follows:

2015	$	5,845,000
2016		6,395,000
2017		6,401,000
2018		6,388,000
2019		6,357,000
2020–2024		15,747,000
		47,133,000
Less amount representing interest		(9,133,000)
Present value of future minimum lease payments		38,000,000
Less amount available to reduce future lease payments		(9,660,000)
Total	$	28,340,000

The City is responsible for any taxes and other assessments, incidental expenses, and administrative costs of the CCA, and all costs of reconstruction or repair of the Anaheim Convention Center facilities.

(5) Certificates of Participation

The CCA is indebted under certificates of participation as follows:

Community Center Certificates of Participation – 1992 Financing Project, interest rates ranging from 3.90% to 6.40%, dated January 1, 1992, principal amount of $92,777,000 with annual principal payments ranging from $1,045,000 to $6,230,000, and maturity dates ranging from August 1, 1993 to August 1, 2023. In July 2002, $26,645,000 was advance refunded, with remaining annual principal payments ranging from $900,000 to $6,100,000	$	38,000,000

The following is a summary of changes in certificates of participation for the year ended June 30, 2014:

		Beginning of year	Additions	Retirements	End of year	Due within one year
Certificates of participation	$	38,000,000	—	—	38,000,000	3,500,000

Remaining debt service payments will be made from lease payments received from the City (note 4). Total annual debt service requirements to maturity are as follows:

		Principal	Interest	Total
Fiscal year(s) ending June 30:				
2015	$	3,500,000	2,345,000	5,845,000
2016		4,500,000	1,895,000	6,395,000
2017		4,800,000	1,601,000	6,401,000
2018		5,100,000	1,288,000	6,388,000
2019		5,400,000	957,000	6,357,000
2020–2024		14,700,000	1,047,000	15,747,000
	$	38,000,000	9,133,000	47,133,000

Cash equivalents and investments held by the fiscal agent for the CCA totaled $9,479,000 at June 30, 2014 (note 3). The fiscal agent is required by bond resolutions to reserve, at a minimum, cash and investments in an amount equal to the maximum annual debt service payments. The terms of the agreement between the CCA and the City provide that any cash held by the fiscal agent in excess of the amount reserved for maximum annual debt service may be applied as a reduction of lease installments due from the City or, alternatively, may be refunded to the City. During fiscal year 2014, there was no amount refunded to the City.

(6) Subsequent Event

On November 14, 2014, the City of Anaheim issued 2014 Series A and B Lease Revenue Bonds in the principal amount of $258,925,000 to finance an Anaheim Convention Center Expansion and other capital projects of the City, and to refund the Prior Obligations which include the 1992 Community Center Certificate of Participation (COP), the 1993 COP, the 2002 Lease Revenue Bonds and the 2010 Revenue Notes. The call date for the 1992 Community Center Certificates of Participation is expected on December 12, 2014.